



Department of the Treasury  
Internal Revenue Service  
P.O. Box 2508  
Cincinnati, OH 45201

Date: January 17, 2017

Employer ID number:

Contact person/ID number:

Contact telephone number:

Form you must file:

Tax years:

Number: **201715003**  
Release Date: 4/14/2017

UIL: 501.06-00, 501.06-01

Dear :

This letter is our final determination that you don't qualify for tax-exempt status under Section 501(c)(6) of the Internal Revenue Code (the Code). Recently, we sent you a proposed adverse determination in response to your application. The proposed adverse determination explained the facts, law, and basis for our conclusion, and it gave you 30 days to file a protest. Because we didn't receive a protest within the required 30 days, the proposed determination is now final.

You must file federal income tax returns for the tax years listed at the top of this letter using the required form (also listed at the top of this letter) within 30 days of this letter unless you request an extension of time to file.

We'll make this final adverse determination letter and the proposed adverse determination letter available for public inspection (as required under Section 6110 of the Code) after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, follow the instructions in the Notice 437 on how to notify us. If you agree with our deletions, you don't need to take any further action.

If you have questions about this letter, you can contact the person listed at the top of this letter. If you have questions about your federal income tax status and responsibilities, call our customer service number at 1-800-829-1040 (TTY 1-800-829-4933 for deaf or hard of hearing) or customer service for businesses at 1-800-829-4933.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Jeffrey I. Cooper  
Director, Exempt Organizations  
Rulings and Agreements

Enclosures:

Notice 437

Redacted Letter 4034, *Proposed Adverse Determination under IRC Section 501(a) Other Than 501(c)(3)*

Redacted Letter 4040, *Final Adverse Determination under IRC Section 501(a) Other Than 501(c)(3) - No Protest*



**Department of the Treasury  
Internal Revenue Service**

P.O. Box 2508  
Cincinnati, OH 45201

**Date:** November 21, 2016

**Employer ID number:**

**Contact person/ID number:**

**Contact telephone number:**

**Contact fax number:**

**Legend:**

X = State

Y = Date

Z = Company

**UIL:**

501.06-00

501.06-01

Dear \_\_\_\_\_ :

We considered your application for recognition of exemption from federal income tax under Section 501(a) of the Internal Revenue Code (the Code). Based on the information provided, we determined that you don't qualify for exemption under Section 501(c)(6) of the Code. This letter explains the basis for our conclusion. Please keep it for your records.

**Issues**

Do you qualify for exemption under section 501(c)(6) of the Code? No, for the reasons stated below.

**Facts**

You incorporated in the State of X on Y.

Your Articles of Incorporation state that you are organized "exclusively for the development of independent contractor Z agents and to promote a common business interest".

You intend to schedule multiple events and activities across the State of X where your members will receive education, training, and networking opportunities. You will also hold an annual banquet where members will be recognized for their achievements.

Article 3.1 of your Bylaws states "Members shall consist of those persons approved by the Board of Directors who:

- Are agents licensed to sell insurance and other financial products offered by Z in the State of X.
- Pay all appropriate assessments made by the Board of Directors; and
- Are approved by the Board of directors.

Article 3.2 of the bylaws indicates your Board of Directors, by a two-thirds vote, may suspend, expel, or terminate the membership of any person for any reason, including the membership of a member whose relationship with Z is terminated for malfeasance, disciplinary action or other violation of Z's rules. A member shall have no right to transfer or assign such member's membership without prior approval of the Board.

There are no classes of membership and all members are entitled to vote. No individuals are required to join. You will have six members on your Board of Directors. Each Director must be a past or present licensed Z agent or a past or present employee of Z.

Your financial support is from membership dues. These funds will be used for your member events and annual banquet.

## **Law**

Section 501(c)(6) of the Internal Revenue Code of 1986 provides exemption from federal income tax for business leagues not organized for profit, and no part of the net earnings of which inure to the benefit of any private shareholder or individual.

Treas. Reg. Section 1.501(c)(6)-1 states that a business league is an association of persons having some common business interests, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. The Regulations further state that the activities of a business league should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual members. For exemption purposes, a line of business is a trade or occupation, entry into which is not restricted by a patent, trademark, or similar device which would allow private parties to restrict the right to engage in the business. A "segment" of a line of business is not considered a line of business under section 501(c)(6) for the Code.

Revenue Ruling 58-294, 1958-1 C.B. 244, holds that an association of licensed dealers in a certain type of patented product did not qualify as a business league. The association in this ruling owned the controlling interest in the corporation that held the basic patent of the product, it engaged mainly in furthering the business interests of its member dealers, and it did not benefit businesses that manufactured competing products of the same type covered by the patent.

Revenue Ruling 67-77, 1967-1 C.B. 138 ruled that an association of dealers selling a particular make of automobile that engaged in financing general advertising campaigns to promote the sale of that particular make was not exempt because it was performing particular services for its members rather than promoting a line of business, i.e., the automotive industry as a whole. In this ruling, membership in the organization was restricted to dealers who held franchises for the sale of the automobiles designated in the area.

In Revenue Ruling 68-182, 1968-1 C.B. 263, the Service's position was stated that organizations promoting a single brand or product within a line of business do not qualify for exemption under section 501(c)(6) of the Code.

Revenue Ruling 83-164, 1983-2 C.B. 95 describes an organization whose members represented diversified businesses that owned, rented, or leased computers produced by a single computer manufacturer that did not qualify for exemption from federal income tax as a business league under Section 501(c)(6) of the Code.

In National Muffler Dealers Association, Inc. v. United States, 440 U.S. 472, Ct. D. 1997, 1979-1 C.B. 198 (1979), the Court held that an organization of muffler dealers franchised by Midas International Corporation did not qualify for exemption from federal income tax as a business league under section 501(c)(6) of the Code.

The organization's purpose was too narrow to satisfy the line of business test of section 1.501(c)(6)-1 of the regulations.

### **Application of law**

You are not a business league as described in IRC 501(c)(6) because you are not organized to improve business conditions of one or more lines of business. Instead, you provide training and networking opportunities to members who are required to be agents of Z which is one specific brand.

You are not described in Treas. Reg. Section 1.501(c)(6)-1 because your activities are directed toward the benefit of members who are agents of Z, a specific insurance company, rather than to the improvement of business conditions of one or more lines of business.

You are similar to the organizations described in Revenue Rulings 58-294, and 67-77, because your activities further the business interests of your members who must be Z agents. You plan to provide activities across the State of X where your members will receive education, training, and networking opportunities meant to make them successful as Z agents. Your activities do not benefit the entire insurance industry or improve the business conditions of the insurance industry as a whole.

You are like the organizations described in Revenue Rulings 68-182 and 83-164, because your activities are exclusively conducted for agents of Z. You were established for members who must be agents of Z to network and provide educational events. Because you are only improving business conditions in a segment of a line of a business, you are precluded from exemption under Section 501(c)(6).

You are similar to the organization described in National Muffler Dealers Association, because your activities serve members who must be agents of Z, a particular company. You only conduct activities toward agents of Z which does not represent one or more line of businesses. Therefore, you are precluded from exemption under Section 501(c)(6).

### **Conclusion**

You do not meet Section 501(c)(6) because your activities are directed toward a segment of a line of a business because your members are limited to Z agents. Your activities are not directed to the improvement of business conditions of one or more lines of business, rather they are providing particular services for your individual members. Accordingly, we conclude that you are not exempt under Section 501(c)(6) of the Code.

### **If you don't agree**

You have a right to file a protest if you don't agree with our proposed adverse determination. To do so, you must send a statement to us within 30 days of the date of this letter. The statement must include:

- Your name, address, employer identification number (EIN), and a daytime phone number
- A copy of this letter highlighting the findings you disagree with
- An explanation of why you disagree, including any supporting documents

- The law or authority, if any, you are relying on
- The signature of an officer, director, trustee, or other official who is authorized to sign for the organization, or your authorized representative
- One of the following declarations:

**For an officer, director, trustee, or other official who is authorized to sign for the organization:**

Under penalties of perjury, I declare that I examined this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

**For authorized representatives:**

Under penalties of perjury, I declare that I prepared this protest statement, including accompanying documents, and to the best of my knowledge and belief, the statement contains all relevant facts and such facts are true, correct, and complete.

Your representative (attorney, certified public accountant, or other individual enrolled to practice before the IRS) must file a Form 2848, *Power of Attorney and Declaration of Representative*, with us if he or she hasn't already done so. You can find more information about representation in Publication 947, *Practice Before the IRS and Power of Attorney*.

We'll review your protest statement and decide if you provided a basis for us to reconsider our determination. If so, we'll continue to process your case considering the information you provided. If you haven't provided a basis for reconsideration, we'll forward your case to the Office of Appeals and notify you. You can find more information about the role of the Appeals Office in Publication 892, *How to Appeal an IRS Decision on Tax-Exempt Status*.

If you don't file a protest within 30 days, you can't seek a declaratory judgment in court at a later date because the law requires that you use the IRS administrative process first (Section 7428(b)(2) of the Code).

**Where to send your protest**

Please send your protest statement, Form 2848, if needed, and any supporting documents to the applicable address:

U.S. mail:

Internal Revenue Service  
EO Determinations Quality Assurance  
Room 7-008  
P.O. Box 2508  
Cincinnati, OH 45201

Street address for delivery service:

Internal Revenue Service  
EO Determinations Quality Assurance  
550 Main Street, Room 7-008  
Cincinnati, OH 45202

You can also fax your statement and supporting documents to the fax number listed at the top of this letter. If you fax your statement, please contact the person listed at the top of this letter to confirm that he or she received it.

**If you agree**

If you agree with our proposed adverse determination, you don't need to do anything. If we don't hear from you within 30 days, we'll issue a final adverse determination letter. That letter will provide information on your income tax filing requirements.

You can find all forms and publications mentioned in this letter on our website at [www.irs.gov/formspubs](http://www.irs.gov/formspubs). If you have questions, you can contact the person listed at the top of this letter.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Jeffrey I. Cooper  
Director, Exempt Organizations  
Rulings and Agreements

Enclosure:  
Publication 892